

Lesson 20.1 Marketing Affects Business Finances

LESSON QUIZ

Directions: For each of the following statements, if the statement is true, write a T on the answer line; if the statement is false, write an F on the answer line.

- F 1. Marketing costs have little effect on the overall profitability of a business.
- T 2. Much of the revenue generated by a business results from marketing activities—the sale of products and services.
- T 3. Finances are important even to nonprofit organizations.
- T 4. When marketers consider changes in the marketing mix, they need to study the costs of the changes and predict the effect on sales.
- F 5. Short-term expenses are for items used within a short time, typically five years or less.
- F 6. Most of the long-term expenses of a business are directly related to marketing activities.
- T 7. Operating expenses are the costs of day-to-day marketing activities.

Directions: For each of the following items, decide which choice best completes the statement. Write the letter that identifies your choice on the answer line.

- A 8. The basic financial equation is:
 - A. profit or loss = revenues – expenses
 - B. total expenses = long-term expenses – short-term expenses
 - C. profit or loss = revenue + expenses
 - D. profit or loss = capital – operating expenses
- D 9. Although most large organizations have departments that deal specifically with financial planning and management, marketers
 - A. are still responsible for the revenues and expenses related to marketing
 - B. need to find ways to increase revenues while controlling costs
 - C. must identify target markets that provide the most profitable opportunities
 - D. all of the above
- C 10. Long-term expenses usually include
 - A. advertising and promotion
 - B. salaries and wages
 - C. vehicles and buildings
 - D. none of the above
- A 11. Which of the following is *not* a common way for businesses to finance inventory?
 - A. pay cash each time inventory is ordered
 - B. obtain short-term loans from financial institutions
 - C. use credit extended by the seller
 - D. all are common ways

Activity 1 • New Opportunities for Revenues and Expenses

Directions: Trina and Pao have been mowing lawns on a part-time basis all through high school. Over the winter when business is slow, they are trying to brainstorm a list of new services they can offer. They realize that additional services increase both revenue and expenses. Help Trina and Pao by completing the following table. The first item is completed for you. Fill in the remainder of the table for the items listed.

Answers will vary. Sample answers are provided.

New Services	Additional Expenses
Seeding new lawns	new equipment for seeding, fertilizing, and watering; costs to purchase seed and fertilizer; credit expenses for new purchases; storage cost of additional materials and equipment; equipment maintenance
Maintaining shrubs	<i>Purchase of hand pruners, electric hedge trimmers, extension cords, shovels, and tree trimmer; operating supplies</i>
Offering credit	<i>Maintaining customer records; waiting for payment until a future time, which increases the likelihood of non-payment and bad debts</i>
Winter snow removal from sidewalks and driveways	<i>New equipment for snow removal—shovels, snow blowers; operating supplies including gasoline, salt, sand; labor to hire additional workers for large snow storms</i>

Activity 2 • Categorize Expenses

Directions: Big City Lights is a specialty store offering lighting products and fixtures such as lamps, ceiling lights, garden lights, and other lighting used for homes and offices. The owner plans to open another store in the near future. Complete the following table by analyzing the list of expenses. The first item is completed for you.

Answers will vary. Sample answers are provided.

Expense	Long Term (L) or Short Term (S)	Capital (C), Inventory (I), or Operating (O)
Building	L	C
Salaries for additional employees	S	O
Computer to track sales and inventory	L	C
Delivery van	L	C
Monthly flyers for advertising	S	O
Office supplies	S	O
Employee training	S	O
Electricity and telephone expenses	S	O
New line of home lighting products	S	I

Lesson 20.2 Tools For Financial Planning

LESSON QUIZ

Directions: For each of the following statements, if the statement is true, write a T on the answer line; if the statement is false, write an F on the answer line.

- T 1. Financial forecasts are numerical predictions of future performance related to revenue and expenses.
- F 2. Businesses have found that most long-term financial forecasts for five years or more can be very accurate.
- T 3. The most important financial forecasts for marketers are sales, market share, and marketing expenses.
- F 4. Businesses normally develop a single marketing budget to cover all products, markets, and major marketing activities.
- T 5. The purpose of an income statement is to determine if the business earned a profit or loss on its operations during a specific period of time.
- T 6. The most effective way to develop a budget for marketing expenses is to identify all marketing tasks required and calculate the costs of performing each of them.
- F 7. Marketers should be concerned about ways to increase sales and revenues rather than how to control marketing costs.

Directions: For each of the following items, decide which choice best completes the statement. Write the letter that identifies your choice on the answer line.

- B 8. A detailed projection of financial performance for a specific time period, usually a year or less, is a
 - A. forecast
 - B. budget
 - C. market share prediction
 - D. sales projection
- C 9. Today most of the financial information related to marketing activities is collected
 - A. by employees recording information as they complete the activities
 - B. from customer records
 - C. using scanners and other technology
 - D. by counting inventory and cash register receipts
- C 10. The most common financial planning method is to
 - A. use information from comparable businesses and markets
 - B. look for related figures that help to predict performance
 - C. use past performance
 - D. examine the financial plans of competitors

Activity 1 • Before and After

Directions: The EconAll Drug Store planned a major promotional campaign to celebrate its one-year anniversary. After the promotion was over, management reviewed the financial information to compare budgeted and actual amounts. The information is provided in the following table.

Promotion Expense	Forecast	Actual	Difference
Television	\$12,350	\$13,500	\$1,150 over
Radio	3,440	2,990	450 under
Print	5,000	5,000	no difference
Coupons	1,500	900	600 under
Give-aways	6,500	7,350	850 over
Additional Wages	4,500	6,500	2,000 over
Total	\$33,290	\$36,240	\$2,950 over

- Complete the table by calculating the dollar difference between the forecast and actual money spent.
- The store's annual promotional budget is \$150,000. What percentage of the total budget was used for this promotional campaign? 24.2%
- The store anticipated that the budgeted promotional expenses would be 18% of the store sales for the two-week period. The actual sales were \$223,550.
What was the projected amount of sales? \$184,944
What percentage of actual sales was spent on the promotional campaign? 16.2%

Activity 2 • Planning with Marketing Information Systems

Directions: Marketing information management systems play a significant role in capturing and storing information to be used later for financial planning and analysis. To help in developing each of the following reports, list several types of information that should be maintained in the company's marketing information system.

Answers will vary. Sample answers are provided.

Sales Forecast: past sales history, past and future economic information, past and future resource availability, competitor sales information, status of and changes in target market expenditures

Market Share: past sales history and market share, total market, competitors' sales, new product development, new technology, new competitors

Customer Accounts: customer credit information and history, records of credit sales, age of past due accounts, history of uncollectible accounts, economic information related to credit

Income Statement: prior income statements, current inventory, purchases, cost of goods sold, expenses, other income, returns by customers, tax information

Lesson 20.3 Budgeting For Marketing Activities

LESSON QUIZ

Directions: For each of the following statements, if the statement is true, write a T on the answer line; if the statement is false, write an F on the answer line.

- T 1. The basis for developing a marketing budget is a marketing strategy.
- T 2. A marketing plan describes the marketing activities to be completed and the resources needed.
- T 3. The primary objective of a marketing strategy is for the business to obtain the most profitable level of sales possible while satisfying a target market.
- F 4. New customers are normally more profitable than current customers.
- T 5. If credit is offered to customers, the sale is not complete until the customer pays for the purchase.
- F 6. Implementing some of the marketing mix elements may not require any expenses.
- T 7. Offering satisfied customers money or other incentives if they identify a prospective customer who then buys a product is actually a promotional expense.

Directions: For each of the following items, decide which choice best completes the statement. Write the letter that identifies your choice on the answer line.

- D 8. Sources of revenue affected by marketing activities include all of the following *except*
 - A. initial purchases by customers
 - B. purchases of products and services by customers after the initial sale is complete
 - C. interest from credit sales
 - D. all are marketing-related revenue sources
- A 9. Replacing a product because it is damaged or does not meet the customer's needs
 - A. reduces the amount of sales revenues
 - B. reduces customer satisfaction
 - C. reduces distribution costs
 - D. all of the above
- C 10. The major expense to a company related to the price mix element is
 - A. the cost of advertising the product or service
 - B. the cost making markups and markdowns
 - C. the cost of offering credit
 - D. the cost of inventory

Activity 1 • Demonstrating Financial Skills

Directions: Marketers must be able to understand and use financial statements. Use the following information to prepare an income statement in the space below. Then, in the last column, calculate percentages to compare gross sales with: net sales, cost of goods sold, gross margin, total expenses, and net income.

Gross sales, \$175,392.36; returns, \$1,587.34; beginning inventory, \$49,222.43; purchases, \$76,234.76; ending inventory, \$25,768.45. Expenses for operating the business: salaries, \$31,394.22; licenses, \$2,547.45; rent, \$6,000; advertising, \$25,000; professional services, \$600; insurance, \$1,200; telephone, \$1,254.36; postage, \$769.33; and utilities, \$2,688.67.

INCOME STATEMENT

For the three-month period ending _____

Percentages

REVENUE:

Gross sales	\$	175,392.36		
Returns		1,587.34		
Net sales			\$	173,805.02
Beginning inventory	\$	49,222.43		
Purchases		76,234.76		
Cost of goods for sale	\$	125,457.19		
Ending inventory		25,768.45		
Cost of goods sold				99,688.74
Gross margin			\$	74,116.28
				42.2%

EXPENSES:

Salaries	\$	31,394.22		
Licenses		2,547.45		
Rent		6,000.00		
Advertising		25,000.00		
Professional services		600.00		
Insurance		1,200.00		
Telephone		1,254.36		
Postage		769.33		
Utilities		2,688.67		
Total expenses				71,454.03
NET INCOME			\$	2,662.25
				1.5%